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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL UPDATE APRIL 5-11

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ZAPATERO ANNOUNCES ECONOMIC MEASURES DURING INVESTITURE DEBATE

[¶1.](#) (U) The PSOE leader, who was elected President on Friday, April 11, with the votes of the PSOE's plurality of seats, discussed the economy in the April 8 investiture debate. He said the next two years would see lower growth and higher unemployment, but he added that Spain would return to higher growth rates in the two years afterwards, i.e. during the second half of the four-year legislature. He called the slowdown a "deceleration" and avoided the use of terms preferred by the opposition conservative PP party such as "crisis" or "recession." He announced a package of planned measures to address the economic problems of the next two years. They include the following actions.

- A euro 400 income tax rebate for workers, retirees, and self-employed individuals - this was a widely publicized election promise.
- Value-Added-Tax refunds for companies will be paid more quickly.
- Additional tax incentives for home improvements.
- Public works contract awards will be expedited.
- Stimulate improvements in buildings (presumably "green" improvements in many cases).
- Public guarantees to ensure continued bank credits for low-income housing.
- Programs to create construction jobs for unemployed people.
- Incentives for businesses to employ women between the ages of 45 and 60.

[¶2.](#) (SBU) Other proposed measures related to the economy included incentives for immigrants to return to their home countries and a somewhat more open attitude towards nuclear-generated electricity. The opposition criticized the package as too little too late and as not containing meaningful structural reform. (Comment: The opposition has a point, although the PP has not offered detailed structural reform proposals. Spain needs additional labor market reform, better education, more investment in R&D, more

competition in factor markets such as energy, and probably lower corporate taxes. Given Zapatero,s promise to continue to increase spending on social programs during the next four years, it is difficult to see how all of these different needs will be met adequately. Moreover, Zapatero,s many proposals with respect to construction fly in the face of the widely agreed upon need to wean Spain away from its overreliance on construction as the engine of economic growth.)(Expansion, 4/9/08)

IMF, BBVA REVISE GROWTH PROJECTIONS DOWN, ECONOMY TOP CONCERN

13. (U) The IMF revised its 2008 growth forecast for Spain down to 1.8 percent and now anticipates 1.7 percent growth in 2009. BBVA revised its forecasts down to 1.9 percent for 2008 and 1.4 percent in 2009. The pessimism may be affecting public concerns. In the March "Spain Today" poll, 68 percent of Spaniards thought the economy should be the next government,s top priority, while terrorism and immigration were cited by the second and third largest percentages. (El Mundo, 4/10/08; BBVA report; Expansion, 4/5/08)

HOUSING DOWNTURN CONTINUES TO HIT CONSTRUCTION, REAL ESTATE

14. (U) Real estate and construction companies are continuing to face difficulties. Contrary to the U.S. situation, it is not so much that homeowners are defaulting on mortgages, but rather that construction companies and real estate developers risk default for billions of euros in loans for unsold properties. The extent of the problem is not fully known, and the good news is that many of these troubled companies appear to be working with their banks to restructure their loans. However, a recent study produced by a local insurance firm notes that that 119 real estate and construction companies filed for bankruptcy in the first quarter of 2008, compared to 48 in the same period of 2007. This 147 percent

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increase in filings was much greater than the 42 percent increase in filings by companies outside the sector. (Expansion, 4/9/08)

PER CAPITA GDP STILL BELOW ITALY'S AFTER ALL

15. (U) Revised IMF/World Bank estimates of countries, purchasing-power-parity (PPP) GDP show that Spain,s per capita GDP has not passed Italy,s after all. At the end of last year, EC information based on earlier IMF/WB estimates indicated that Spain had passed Italy in 2006. President Zapatero declared this &a unique historic event,8 and Italian PM Prodi questioned the data. The revised GDP estimates and new population estimates show Spain's 2007 PPP per capita GDP as usd 30,120 and Italy's as usd 30,444. With neither economy expected to grow much this year or next and Spain,s population continuing to grow faster than Italy,s, Spain is not expected to pass Italy until 2010. (El Pais, 4/10/08)

SPAIN LEADS IN EU TRANSPORTATION PROJECT DELAYS

16. (U) According to a study commissioned by the European Parliament, Spain is the EU country that has experienced the most severe delays in completing major EU transportation projects. Two major projects in particular have suffered a 10-year delay each: the cargo rail line project to connect Sines (Portugal), Madrid, and Paris and the high-speed rail line between France and Spain. These projects are now scheduled to be completed in 2010. The study further notes that implementation has been hindered by insufficient financing and other administrative reasons. (El Pais, 4/8/08)

RAIN IN SPAIN NOT FALLING ON THE PLAIN -- OR ANYWHERE ELSE

17. (U) Despite some rain this week, Spain is experiencing one of its worst droughts since the 1940s. For the six-month period from October 2007 through March 2008, rainfall in Spain was 40 percent below average. Particularly severe along the Mediterranean coast, the drought is affecting farmers, hydropower generators and consumers. The WSJ Europe reported that the drought could reduce vegetable production in some areas by as much as 30 to 40 percent. Spain produces nearly half of the oranges grown in Europe, and Valencia, Spain,s largest citrus-producing region, expects a significant reduction in overall production. The region of Catalonia began imposing water restrictions in February, prohibiting the use of potable water for washing cars or filling swimming pools. The Financial Times reports that Barcelona will begin importing water by ship in May from southern France. Barcelona,s reservoirs are only at 22 percent of capacity; additional restrictions could be imposed if they fall below 20 percent. The situation has caused political trouble, with President Zapatero at odds with Jos Montilla, the Catalan regional president, over Zapatero,s decision to prohibit the diversion of water from the Segre river, a tributary of the Ebro. (WSJ Europe, Financial Times)

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